Why Do Firms Financialize? Meso-Level Evidence from the U.S. Apparel and Footwear Industry, 1991-2005

THESIS

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Abstract

The American economy has become increasingly financialized over the past 30 years.

Prior research on financialization has been conducted within separate theoretical traditions, has focused on macro explanations, and employed totalizing conceptualizations of financialization. It has not seriously considered the meso-level processes propelling financialization or engaged in the divergent theories commonly used to explain it. This study seeks to adjudicate between two theories—political economy and neo-institutionalism—to hone in on key determinants of financialization at the firm level.

I do so with a unique panel data set and longitudinal data techniques to predict financialization at the firm level. Results lend support for both theories, especially political economy. From this vantage point, financialization is not the sweeping force that earlier work has described but a localized and contingent process.

Dedication

This thesis is dedicated to the memory of Lou Reed.

Acknowledgments

I first thank my parents for their support in all I do. I also thank Professor Claudia Buchmann, Corey Pech, and Robert Vandenberg who provided me with very useful feedback on this thesis. I also wish to thank my committee members, Professors Randy Hodson and Andrew Martin whose advice and support I greatly appreciate. I thank especially Michael Nau, who has provided me with a tremendous amount of guidance and suggestions in my work and highly useful information on the workings of financial capitalism. Above all, I wish to thank my advisor, Professor Tim Bartley. I am sincerely grateful for his encouragement, resources, trenchant advice, and invaluable suggestions, all of which have sharpened this paper as well as my own thinking.

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Introduction

Between 2002 and 2005, the international brand Nike, saw an 82 percent increase in profitability such that by 2005, the firm had netted \$1.2 billion. At the same time Nike experienced these handsome gains, their rate of real investment declined by 12 percent.¹ Where did their profits go? A number of places to be sure, but what is striking is that during this period, Nike spent nearly \$1.4 billion on stock repurchases and \$837 million on short-term financial investments. On top of this activity, the income Nike received from interest and dividends increased by 470 percent—by 2005, Nike received \$87.3 million in such income.

Stated differently, Nike and other public firms are receiving more income from financial channels and devoting more of their earnings to make short-term investments, buying back stock, and paying out dividends to keep their share price high. This process is broadly referred to as *financialization* and it has altered the American socio-economy in a profound way. For the past several decades, income derived from financial channels has risen markedly (Krippner 2005; Tomaskovic-Devey and Lin 2011) while economic behavior has become increasingly interconnected with, and responsive to, financial markets (Davis 2009; Milberg 2008; Orhangazi 2008). The economist, Lawrence

¹ I calculated real investment by taking capital expenditures as a percentage of working capital.

Summers captured this change succinctly when he declared, “financial markets don’t just oil the wheels of economic growth—they *are* the wheels.”²

Financialization has become a topic of interest for social scientists because it forces us to rethink the organization of economic life while revealing important elements of neoliberal capitalism. More pointedly, financialization scholars have offered incisive insight into a peculiar paradox within the American economy—hyper eventful activity like consolidation, globalization, and high productivity rates at the same time as lower accumulation rates, waning productive investment, and stagnate wages (Baud and Durand 2012; Crotty 2005; Duménil and Lévy 2004; Fligstein and Shin 2007; Harvey 2005; Ho 2009; Krippner 2005; Lazonick and O’Sullivan 2000; Milberg 2008; Orhangazi 2008).

Given the importance of financialization, the literature surrounding it has grown in popularity, yet the topic is nascent and our understanding of it is far from complete. Early work on financialization operated at a very macro-level (Arrighi 1994; Krippner 2005). This work introduced the topic of financialization to a variety of scholars but it is still problematic. For instance, Krippner (2005) empirically charts financialization within the United States since the late 1970s, demonstrating a dramatic shift in economic organization; however, Krippner portrays financialization as a monolithic and universal phenomenon. As a result of this sweeping portrayal of financialization it’s more nuanced character is greatly obscured. Even research at the industry level has failed to move beyond this perspective. Scholars like Lin and Tomaskovic-Devey (2013) and Fligstein and Shin (2007) have readily acknowledged that industry level variation exists but in

² From the *Wall Street Journal*, December 8, 1997

taking financialization to be a universal process, they and others have said little to nothing about *why* that variation exists and limit a more detailed and prudent understanding of it.

Approaching a new topic like financialization with such a sweeping framework puts social scientists in an immensely precarious position. For instance, Engelen (2008) critiques Krippner and others for committing “conceptual stretching” whereby new and general terms like “financialization” or “modernization” explain everything and later, nothing because of their indeterminate conceptual boundaries (see Sartori 1970). This problem extends to the recent work that links financialization with specific outcomes like rising income inequality (Lin and Tomaskovic-Devey 2013), global offshoring (Milberg 2008), and a slowdown in real production (Orhangazi 2008). To be sure, this research has advanced our understanding of financial capitalism greatly, but in viewing financialization as a holistic process, we have not gained the needed leverage on what is driving financialization *itself*.

What is needed is a clear understanding of the meso-level dynamics propelling the financialization processes and I attempt to address this issue by examining why American firms financialize. By examining the firm level conditions that facilitate financialization, we can link meso-level dynamics with macro changes in the socio-economy just as similar research has attempted (Akkemik and Özen 2014; Baud and Durand 2012). Therefore, I intend to capitalize on Davis and McAdam’s contention that understanding organizations “holds the master key to social structures” (2000: 198) and in the process, I seek to gain theoretical purchase on financialization and economic change more broadly.

I do so by testing competing theoretical claims that purport to explain financialization—political economy and neo-institutionalism. As Lapavistas has said with some exasperation, sociological accounts of financialization are merely “thick descriptions” and lack a coherent theoretical program to work from (2013: 34). Therefore, it is imperative we engender a theoretical discussion into the financialization literature.

Within economic sociology, the political economy and a neo-institutionalist paradigms provide two different means for theorizing markets (Fligstein and Dauter 2007). As we will see, both perspectives are widely used in the financialization literature and we can sharpen our understanding of what influences firms to financialize by testing these theories empirically

The political economy perspective of financialization stresses the importance of accumulation, competition, and power. Scholars within this tradition, who draw inspiration from thinkers as diverse as Marx, Keynes, and Polanyi, contend that financialization is a consequence of the poor performance of the U.S. economy since the 1970s (Arrighi 1994; Crotty 2005; Krippner 2005). Due to heightened competition, productive over-capacity, and low profitability rates, firms have used finance and financial markets to remain economically viable (Epstein 2005).

Conversely, neo-institutionalists are concerned with the ways cultural ideologies organize the economy. Taking their influence from phenomenological social science (e.g., Berger and Luckmann 1967), the neo-institutionalists contend that certain logics are transmitted through a social field to pressure actors into following scripts and norms (DiMaggio and Powell 1983). Therefore, neo-institutionalists demonstrate how cognition

and cultural scripts have facilitated financialization within organizations (Davis and McAdam 2000; Pozner, Stimmeler and Hirsch 2010) and the American economy generally (Davis 2009).

To understand what influences firms to financialize, these two perspectives should be tested together. However, a coherent synthesis of these two perspectives is daunting and beyond the scope of this paper. As Krippner and Alvarez (2007) have persuasively argued, organizational and political economy perspectives have dominated economic sociology but their intellectual underpinnings—a Granovetterian and Polanyian approach respectively—remain disparate and difficult to bridge fully. I am more interested in comparing these perspectives to underscore the variables that matter than with developing a totalizing paradigm that synthesizes these perspectives. I hope to draw attention to forces that one camp may be neglecting or underemphasizing in order to stimulate new dialogue and therefore follow Krippner and Alvarez who are keen to note the possibility of cross-fertilization without complete integration (2007: 233). Such an endeavor is within reach as political economists have begun to take institutionalism very seriously (e.g., Blyth 2002; Chang 2002) while economic sociologists are becoming engaged with a “realist” as opposed to a “constructivist” approaches to economic activity (e.g., Lounsbury and Hirsch 2010). Such moves towards cross-fertilization are more productive for advancing our understanding of financialization than continued segregation of scholars within their theoretical camps.

By empirically testing what influences firms to financialize, my results indicate that market uncertainty, supply chain type, and isomorphic pressure predict

financialization at the firm level. To a lesser extent, I find profitability rates and unionization also matter. More broadly, this study suggests a high degree of firm and industry variability with regard financialization and casts doubt on the notion that financialization is universal. From this I propose two theoretical insights. The first is that financialization is a more localized and contingent process than earlier work has described (e.g. Krippner 2005). My second insight stems from my twin application of political economy and neo-institutionalism to explain financialization. This is especially the case for political economy, which provides greater explanatory power. Therefore, this research is a call not only for political economists to consider non-economic forces, but for economic sociologists to focus more intensely on realist conceptions of markets as well.

Background and Theory

The Rise of Finance: A Brief History

To understand how American firms became interconnected with financial markets, we must first trace the relevant socio-economic history that facilitated financialization. During the postwar period, the United States experienced robust economic growth. The marriage of Keynesian policies and Fordist production was fruitful but proved untenable over the long run (Gindin and Panitch 2012; Harvey 1989). Two major events put real pressure on politicians and economic elites—the slowdown of economic growth and an unstable currency regime (Brenner 2006; Gordon 2012; Helleiner 1994). To protect against the latter threat, advanced states let their currencies float in 1973 enabling new capital mobility and introducing new market uncertainties. This event not only marked the formal end of the Bretton Woods system, it also marked the beginning of the neoliberal era in which financial capital triumphed (Harvey 2005).

This economic restructuring has been of keen interest to sociologists. Here I focus on two different sociological accounts of this change that are invaluable for understanding this rise of finance. The first is Greta Krippner's historical study in which she argues financialization "was an unplanned result of policymakers' attempt to respond to a unique constellation of difficulties that confronted the state beginning in the late

1960s and 1970s” (2011: 58). It was at this time that the postwar system of credit regulation became incongruous with the high inflation of the 1970s. Credit became redistributed along unequal lines making state actors choose which sectors to favor. Faced with such a difficult task, policymakers choose to deregulate interest rate ceilings in 1980 to leave credit allocation to the market. According to Krippner, the constraints placed on state actors did not end there as deregulation of interest rates, high borrowing costs, and new capital mobility, resulted in heavy inflows of foreign investments during the 1980s and a rapidly appreciating dollar that devastated U.S. exports. With new institutional channels to circulate finance widely and a suppressed productive economy, financial activity solidified itself as a dominant facet of the U.S. economy.

The American firm stood at the center of this reorganization. Corporations had to wrestle with the macro changes described above and their decisions in turn affected economic behavior and socio-economic organization broadly. Gerald Davis has provided some of the most insightful sociological accounts of this shift (e.g., 2009). According to Davis, the slow growth and over-valued equity in the 1970s prompted “activist” investors to buy and sell off conglomerates which culminated in one of the largest takeover waves in the 1980s. Behind this sea change of corporate control was the widely held belief that investors and financial markets could allocate resources and restructure firms most efficiently. As a result, managers faced enormous social pressure from stockholders and institutional investors to conform to their expectations lest they be punished by the stock market. Thus, shareholder value ideology became the *raison d'être* for American managers while financial price signals oriented economic organization. Due to this

orientation and the incessant demands of capital markets, American firms reduced their planning horizons significantly and became more focused on short-term gains.

Taken together, the turbulent events of the 1970s and 1980s reorganized American capitalism in ways that privileged finance immensely. Financial market dynamism created a frenzy of activity and new ways of disciplining and rewarding economic organizations. As managers succumbed to shareholder pressure (Davis, Diekmann and Tinsley 1994; Useem 1993), they increased their level of financial income to generate the returns these markets demanded (Baud and Durand 2012; Lazonick 2010; Milberg 2008). By tying firms directly to a highly dynamic and liquid stock market, American corporations became organizationally flexible (Lazonick 2010). What then, has facilitated financialization since this process was put into motion? To answer this question, I first examine two explanations, a neo-institutional and political economy framework.

Neo-Institutionalism and the Cultural Foundations of Financialization

Neo-institutional theory is a major paradigm in economic sociology. In part, this stems from its ability to link micro cultural processes to broader organizational structures. Further, neo-institutionalism aligns with economic sociology as both seek to challenge rational explanations of social order and economic behavior. These goals have lent themselves well to explaining financialization.

One of the major works of neo-institutional theory was DiMaggio and Powell's classic 1983 paper. The authors contended that institutionalization is driven less by

efficiency demands and more from taken-for-granted assumptions, norms, schemas, and scripts that shape our objective reality. These actions then become routinized to produce social “logics” of behaving. It is through this behavior on a large scale that institutionalizes social practices.

Therefore, social behavior and organization is *not* driven by a need to maximize the utility of something or solely to maintain efficiency. Rather, the meaning structures we create and the scripts we follow shape behavior and organize social relations (Hallett and Ventresca 2006; Sauder and Espeland 2009). These dynamics have become integral to explaining the organization of the economy (Powell 1990) and the transformation of it (Fligstein 1985).

Neo-institutionalism’s ability to describe economic (re)organization contributed to understanding the shift from a manufacturing to a financial logic within the American economy (Fligstein and Brantley 1992). This financial logic occurred from a series of structural constraints and cultural values in the mid-1980s and 1990s (Davis 2009). Due to the difficult economic circumstances described above, firms *had* to adapt to this new environment by appeasing shareholders and protecting themselves against takeover bids. They did so by reading and interpreting the behavior of other actors within their field to know which script to follow and actions to take. Consequently, managers learned to leverage their assets, saddle up in debt and reduce their enterprise to its “core competencies” (Davis, Diekmann and Tinsley 1994). They also learned ideas like “agency theory” which advanced the claim that capital markets and shareholders are the most efficient allocators of resources (e.g. Jensen and Meckling 1976). Accordingly, Jensen and others’ ideas

diffused through the business community and helped reorganize it in their image (Davis 2009; Dobbin and Jung 2010).

It can be said, that firm level involvement in financial markets occurred from a process of *organizational learning*. Firm's financial behavior is ultimately embedded within their social context (Keister 2002). Therefore, managers and investors had to read the dynamics occurring around them while conforming to environmental pressures. For example, discussing the proliferation of dispersed financial markets, Davis and McAdam contend that this "requires discerning and acting on intersubjectively-held mental models of appropriate practice that are 'out there' in the market" (2000: 200).

These mental models give rise to isomorphic pressures that facilitate financialization. Since a firm's capital structure and behavior depends on financial networks (Uzzi and Gillespie 1999), key actors can influence a firm or group of firms based on their knowledge. For example, the growing importance of financial executives in managing company affairs (Davis et al. 1994) reflects a *normative isomorphic* process. So too does Ho's (2009) research which emphasizes how financiers bring their expertise to non-financial companies they later work for.

Moreover, *mimetic isomorphism* contributes towards financialization. Here the influence rests on imitating others within a field. Evidence of mimetic isomorphism is strong within shareholder value ideology (e.g. Fiss and Zajac 2004) and has helped integrate finance into the "real" economy (Davis 2009). Moreover, normative and isomorphic pressure played key roles in the 2008 Financial Crisis by influencing banks and corporations to over-leverage their assets, securitize debt (Fligstein 2010; Pozner,

Stimmler and Hirsch 2010) and engage in excessive risk taking (Dobbin and Jung 2010). From this vantage point, we see that the growth of financial activity is led by actors looking “out there” for prescribed roles and repertoires and financialization was born out of cultural and cognitive processes.

Power and Profitability: A Political Economy Perspective

Political economy provides the financialization literature with tremendous insight that may not be gleaned from neo-institutionalists. The neo-institutionalists attention to cognitive level processes and disdain for “rational” processes like competition, may blindside them from forces like power and profitability (Fligstein and McAdam 2011). While heterodox political economy also rejects strong rational choice claims, it is privy to market forces giving them useful leverage within socio-economics.

To understand financialization from a political economy perspective, we must understand how political economy theorizes capitalism. Most generally, capitalism’s growth imperative depends upon multiple institutional forces that are always shifting (Streeck 2009). Thus growth is historically contingent upon the non-economic environment (Sewell 2008; Streeck 1997; Streeck 2009). At a micro or meso-level, this implies that institutional entrepreneurs work within the confines of a given institution or organization in order to meet the role obligations capitalism demands (Deutschmann 2011; Hall and Thelen 2009).

Such entrepreneurialism was evident since the 1970s as economic actors reconfigured their institutional environment and paved the way for spectacular financial

market growth (Krippner 2005; McDermott 2010; Tomaskovic-Devey and Lin 2011).

The obstacles these actors faced included over-capacitated production, heightened competition, and declining accumulation rates in tandem with lacking aggregate demand. Crotty (2005) has referred to this as the “neoliberal paradox” as firms are coerced to remain competitive and profitable while lacking the adequate room to grow through productive channels. Moreover, because firms are increasingly oriented around financial markets and powerful shareholders like institutional investors, these actors also face enormous pressure for quick and high returns (Fligstein and Shin 2007).

Firms have sought to alleviate pressures for immediate returns by increasing their financial holdings, paying out dividends to investors, and buying back shares (Crotty 2005; Parenteau 2005). This has increased “rentier” or financial income (dividends and interest) at the expense of wage income and non-rentier profits (Onran, Stockhammer and Grafl 2011; Tomaskovic-Devey and Lin 2011). Related, financial income and shareholder pressure for quick returns has effectively crowded out income that could be used for “real” production (Orhangazi 2008). Moreover, by increasing profitability at the expense of workers, managers and investors have gained impressive power (Goldstein 2012; Gordon 2012). Indeed, financialization has increased “extensive” and “intensive” power (see Mann 1986: 7) by reinforcing the power of key firms and industries while strengthening the power of managers over workers (Fligstein and Shin 2007; Goldstein 2012; Lazonick 2010; Lin and Tomaskovic-Devey 2013).

U.S. firms have also remained competitive by using financialization and global markets together. With intense competition, global off shoring and logistics has given

firms breathing room from cheaper input prices and lower import costs. However, because financialization has created a need for high returns and thereby, a disincentive to reinvest in fixed capital and labor, firms have used their earnings from offshoring to pay out dividends and buy back shares (Milberg 2008; Milberg and Winkler 2010). Recently, Baud and Durand (2012) have demonstrated this with global retailers. Their work shows when retailers are confronted with low profits, and uncertainties in the market, they will internationalize production to expand their markets until this option exhausts itself and then financialize to maintain standing with investors.

This literature makes clear that forces like profitability and competitiveness matter in a firm's ability to financialize. Furthermore, the relationship between globalization and power may reinforce a firm's ability to remain profitable and thus, their likelihood of financializing. Globalization is an important story not only for financialization but for the industry examined in this study to which I now explore.

Financialization in the Non-Financial Sector: The Case of Apparel and Footwear

This study examines American footwear and apparel producers as well as the retailers that sell these goods. Over the past several decades, this industry has undergone organizational and spatial shifts of seismic proportions. Indeed, it is reasonable to contend that these firms are archetypes *par excellence* of the highly international and flexible firm that has characterized global capitalism. Therefore, it is important to spend some time understanding this industry.

By the 1970s, apparel, footwear, and retail faced stiff foreign competition that cut into profit margins significantly. To compensate, these firms attempted to raise productivity and offshore production where possible. It is well known that this industry began to internationalize production substantially as apparel imports to the U.S. rose steadily from the 1980s onward. The organization of this process was shaped tremendously by trade agreements, especially the 1973 Multi-Fiber Agreement (MFA)—a protectionist law that put quotas on apparel imports. As Gereffi (1999) contends, the MFA heightened competition and specialization that in turn, facilitated a massive expansion in apparel and footwear production in East Asia. This process continued unabated as the MFA became even more restrictive until it was phased out in 1995 (Dicken 2011: 313). By that time, the apparel and footwear industry was firmly integrated into global production networks as well as new geographic regions like Mexico, Central America, and the Caribbean Basin.

As this industry became increasingly globalized, the dynamics of production were altered in a fundamental way. This can be seen in the highly sophisticated and integrated global supply chains that emerged during this time. With assembly and production occurring in far-flung corners of the world, leading firms sought to rationalize these supply chains so that suppliers, buyers, and intermediaries had the necessary organizational structure to control and integrate production networks (Sturgeon, Humphrey and Gereffi 2011).

New supply chain sophistication and integration has yielded different outcomes amongst the four major buyer driven chains (Gereffi 1999). For instance, branded

manufacturers—firms that still own productive facilities, rely on the subcontracting of assembly and other upstream activity. Manufacturing has become highly dispersed but probably not as much as retail, which has developed very sophisticated supply and distributional networks. More importantly, retailers have grown to be immensely powerful overall to the point that they effectively shape consumer demand and supplier markets (Hamilton, Petrovic and Senauer 2011).

Market power has become exceptionally important for buyer driven chains because power in relation to suppliers and competitors, determines a firm's position in this intensely competitive and fast-changing industry (Gereffi, Humphrey and Sturgeon 2005). Perhaps the most notable trend to come out of this reorganization is the emergence of branded marketers—firms that were “born global” and divested themselves of any productive activity (Bair and Gereffi 2003). As Klein astutely observes, it has become less important *where* these firms produce as opposed to *how* they produce (1999: 201). This is to say that branded marketers such as Nike rely less on the “old ways” of profiting like building economies of scale or responding to consumer demand in favor of marketing, design, and research (Bair and Gereffi 2003: 146). More critically, we can understand branded marketers as firms disengaged with any real production, as they exist on “monopolistic brand identities” alone (Heintz 2006: 511).

For the purposes of understanding financialization, this industry is illuminating for several reasons. As recent work has suggested, financialization is strongly associated with globalization (Baud and Durand 2012; Milberg 2008; Milberg & Winkler 2010) and flexible organization (Lazonick 2010). Therefore, studying a highly global industry like

apparel and footwear is pertinent to the study of financialization. There is also a second and equally important reason for studying this industry. As mentioned above, too much of existing research paints financialization in broad brushstrokes. When these scholars attempt to make comparisons within their data, it is across disparate industries (cf., Baud and Durand 2012)—such comparisons may obscure more than it reveals. The apparel and footwear industry I have described above can help address these shortcomings because these firms fall within a similar industry yet retain distinctive organizational and supply chain structures. This blend of structural differences within a similar industry makes them good candidates for comparative sociology.

Hypotheses

Political Economy

Profitability has been a central variable for financialization scholars.

Financialization is said to occur at the macro level because of fewer opportunities for “real” profitability (Arrighi 1994; Crotty 2005; Krippner 2005). I expect profitability to matter at the firm level too. This is in accord with Baud and Durand’s (2012) findings that top retailers increase their level of financial assets and payouts when the advantages from global offshoring exhaust themselves. Moreover, since firms are tied to financial markets that demand high and immediate returns (Davis 2009; Parenteau 2005), managers face tremendous pressure to generate high returns consistently (Aglietta and Breton 2001; Fligstein and Shin 2007; Lazonick and O’Sullivan 2000). Through maximizing returns, companies can remain viable in intensely competitive sectors (Milberg 2008). Indeed, financializing is one tactic firms can employ to compensate for lackluster performance (Baud and Durand 2012; Crotty 2005; Milberg and Winkler 2010). Therefore, I expect,

H1. Return on assets (ROA) are negatively associated with financialization.

Due to increased capital mobility and liberalized currency regulation, financial capitalism has had to cope with high uncertainty since the 1970s. (Arrighi 1994: 320-1).

One way of dealing with uncertainty has been using financial instruments to mitigate risk (Gindin and Panitch 2012: 150-1). These instruments proliferated from the late 1980s onward as the Bull Market of that time produced high financial income and capital gains that were rechanneled into more financial instruments in order to hedge against that same Bull Market or to speculate on its lucrative opportunities (Blyth 2013: 232). Thus, financialization and market uncertainty have a symbiotic relationship (Akkemik and Özen 2014) reminiscent of an arms race.

H2. Market Uncertainty is positively associated with financialization.

Unionization is a surprisingly neglected facet of the financialization literature. However, two studies help guide a hypothesis. The first is Lin and Tomaskovic-Devey (2013). They find an overall increase in financial income in the U.S. economy has increased income dispersal for labor as it provides greater leverage for owners and managers. Unionization however, has been able to safeguard labor's share during this period (Kristal 2010). Non-unionized firms may have greater susceptibility to financialization. Therefore, I hypothesize:

H3. A higher level of financialization is more likely in non-unionized firms than unionized firms.

Financialization has been strongly linked with declining levels of capital expenditures (Orhangazi 2008), pressure for firms to divest their tangible assets base for “leaner” operations (Fligstein and Shin 2007), and to become more flexible overall (Lazonick 2010). Therefore, I would expect highly flexible and divested firms to be strong candidates for financializing. Within my sample this would be the branded

marketers. This firm type is flexible and international in order to meet the high levels of uncertainty they face (Gereffi 1999; Lane 2008). Due to high uncertainty and flexibility, I hypothesize that,

H4. Branded marketers will have higher levels of financialization when compared with other supply chain types.

Neo-Institutionalism

Neo-institutional theory provides two powerful ways of explaining financialization: normative and mimetic isomorphic pressure. With mimetic pressure, actors look “out there” in their field for behavioral cues and scripts. This often entails actors looking to their competitors for appropriate behavior they can mimic (Powell 1990). Through this type of learning, practices can diffuse through a field. Just as managers learned to lever up and increase their level of debt to protect against a takeover (Davis Dickerman, Tinsely 1994) or take the necessary actions to boost their share price, managers may look towards other actors and learn to financialize. Therefore, by conceptualizing a similarly organized industry as a field (Goldstein 2012: 279), I expect total and within industry levels of financialization to predict firm level financialization.

H5. Total and within industry levels of financialization are positively associated with firm level financial assets and payouts.

Financialization may arise not only from managers learning from field level observations but also from institutional actors. A key element of neo-institutionalism is that knowledge is transmitted through institutional structures from normative professional

training (DiMaggio & Powell 1983) and from the proximity to certain institutions and organizations that channel certain knowledge or practices (Sutton et al. 1994). With this in mind, there is reason to believe that independent auditors may be influencing firms to financialize. These actors possess expertise regarding corporate finance and that knowledge may be diffusing to their clients. This institutional transmission of knowledge seems more plausible given recent developments within this industry. During the 1990s, auditing firms dramatically increased their levels of financial consulting services with their clients (*The Economist* 2013). Therefore, auditors acted as important institutional entrepreneurs and transmitted key information to their clients about their finances (Greenwood and Suddaby 2006). As Greenwood and Suddaby (2006) contend, auditing practices and standards arise out of pressure to conform to institutionalized practices and from normative pressure learned in professional training. Similar to Ho (2009) who found that financialization arose from financiers transmitting their knowledge to non-financial corporations. Auditor's consulting activities transmit expert knowledge to managers or vice-versa and may explain financialization. It is difficult to say which auditing firms are likely to be engaged in this behavior but one or more may be a key proponent of financialization strategies which they convey to their client. Therefore,

H6. Connections to auditing firms will likely influence levels of financialization.

Data and Methods

This study employs a unique panel data set detailing the largest U.S. retailer, apparel, and footwear firms (N=170) over the years 1991 to 2005.³ Data for this project were culled from several sources. Variables operationalizing financialization were taken from Standard and Poor's Compustat North America Industrial Annual File. The dependent variables are two measures of financialization: financial assets and financial payouts. Financial assets consist of cash, short term investments, total receivables, and other current assets. This measure is taken directly from prior research (Armenet and Hnatviska 2011; Baud and Durand 2012). Financial payouts are comprised of total interest payments, cash dividends paid out, and purchase of common and preferred shares. This measure is taken from Orhangazi (2008) but similar measures can be found in the work of Milberg (2008) and Milberg and Winkler (2010). All values are adjusted to 2005 dollars and all analyses are conducted at the yearly level. Since both dependent variables are not normally distributed, they were logged.

The seven independent variables are shown in Table 1. To test the effect of profitability rates on financialization, I use a measure for a two year change in returns on

³ Firms were chosen through Compustat if they were part of the following standard industrial classification (SIC) scheme: textiles (SIC 22), apparel manufacturing (SIC 23), footwear and accessories (SIC 302 & SIC 31), Wholesale apparel or footwear (SIC 513), general and mass retail (SIC 53), apparel retailers (SIC 56), catalog and mail order houses (SIC 5961). This sample includes Sarah Lee given their involvement in apparel production. Because I wanted to examine largest companies, all firms had to have assets or sales of at least \$300 million. See also, Bartley and Child Forthcoming.

assets (ROA). This not only accounts for whether or not firms are maintaining an acceptable rate of return but also controls for firm size. I employ two measures to capture market uncertainty: 1.) annual gross domestic product (GDP) which in accord with Akkemik and Özen (2014) is a proxy for market confidence or lack thereof and 2.) Economic Policy Uncertainty (EPU) developed by the economists Baker, Bloom, and Davis (2013). EPU is based on newspaper references to economic uncertainty, tax code provisions set to expire, and a measure capturing expert disagreement in economic forecasting. EPU data is available at the daily level since 1985 but I took the yearly average for years my study covers.⁴ To avoid correlation, these two measures were used in separate models. To test my hypothesis on unionization, I use a union dummy variable based on information in annual reports.

This study also uses dummy variables capturing supply chain types as specified by Gereffi (1999) and used by other scholars (Bartley and Child Forthcoming). They include branded manufactures, branded marketers, retailers, specialty retailers and textile assemblers and producers. As discussed above, branded manufactures are firms that own some productive facilities as well as their own brand such as Columbia Sportswear and Fruit of the Loom. Conversely, branded marketers are firms such as Nike and Liz Claiborne that contract out all production and sell their brands in retailers. Retailers are divided into specialty retailers that sell their own products like the Gap and Abercrombie

⁴ While yearly average is not as approximate as the daily average available with this measure. I superimposed the daily average from 1991 to 2005 with the yearly average used in this study. The two follow a very similar path so I am less concerned with losing important detail.

and Fitch, and general retailers like Wal-Mart and Target which sell an array of their own commodity lines. Finally, I include a group labeled

Variable	Description
Dependent Variables	
Financial Assets	Short term investments, total receivables, and other current assets
Financial Payouts	Total interest payments, cash dividends, purchase of common and preferred shares
Independent Variables	
Market Uncertainty— Economic Policy Uncertainty (EPU) & Gross Domestic Product (GDP)	Yearly average of market uncertainty. The EPU Index is based off of newspaper reports on economic uncertainty, tax codes set to expire, and disagreement amongst economists on economic outlook. GDP is aggregate output within the economy.
Profitability Rate	A two year rate of change in ROA.
Union	Dummy variable for whether a firm was unionized or not.
Branded Manufacturer	Firms who own some productive facilities (e.g., VF)
Branded Marketer	Firms who own no productive facilities and focus exclusively on branding, marketing, and design (e.g., Nike).
Specialty Retailer	Retailers specializing in one type of product, often their own product lines (e.g., the Gap).
General Retailer	Stores that sell an array of private label goods (e.g., Wal-Mart)
Textile	Firms in the apparel industry that assemble and produce textiles but do not own their own brands (e.g., Guilford Mills)
Total Asset (Payout) Levels	The sum of all financial assets or payouts (depending on the dependent variable) of every firm in the sample. Lagged one year.
Within Industry Financial Assets (Payouts)	The sum of financial assets or payouts (depending on the dependent variable) by organizational type (i.e. manufactures, marketers, specialty, textile, and general retailers). Lagged one year.
Auditing Firms	Dummy variable for which auditors sample firms employed.

Table 1: List of Variables

Textile⁵. Textile is composed of firms that fall within this industry but do not fit into the previously mentioned categories. These include firms like Quaker Fabric Corporation and Guilford Mills who are not major producers of their own brands. Rather, they assemble, dye, or produce textiles and other materials which they sell to other firms. These data were culled from company fillings (see Bartley and Child Forthcoming).

To test mimetic pressure, or general trend following, I created two variables that capture levels of financial assets or payouts given the dependent variable being predicted. One is the total level of assets or payouts within the sample while the other is the summation of all financial assets or payouts in a given year by the firm types outlined above. Both variables are lagged by one year. My other neo-institutional variable is a dummy of the auditing firms employed. This information was culled from annual reports. This included a total of six auditing firms as there was consolidation within this industry over the sample period.⁶ These firms are Pricewaterhouse (Coopers), Ernst and Young, Deloitte and Touche, KPMG, Arthur Anderson, Coopers and Lybrand, and an “other” category.

Methodologically, my study uses longitudinal techniques to test my hypotheses. Specifically, I use two random effects models for each dependent variable. Since multiple

⁵ Given the industrial classification schema used to find these firms. The data originally included four other firms: Cintas Corporation, Unifirst Corporation, Cygne Designs, and Tarrent Apparel. These firms did not fit within the five categories and were accordingly excluded. Cintas and Unifirst rented and cleaned uniforms while Cygne and Tarrent were contract or private label manufactures.

⁶ During the sample period, the auditing industry shrank from the Big 6 to the Big 4 and Arthur Anderson went under due to fraud. My coding attempts to compensate for these industrial changes. Firms that employed Ernst and Young, Deloitte and Touche, and KPMG at different points in time remained unchanged. If a firm employed Arthur Anderson, I would check later annual reports to see who they switched to after 2002. Similarly, if a firm employed Coopers and Lybrand before they merged with Pricewaterhouse, I would check who their auditor was after the merger in 1998. If they “stayed” with the Pricewaterhouse Coopers, they were counted in Pricewaterhouse.

observations for a single firm may be correlated with one another I clustered my standard errors around firm ID to produce more robust standard errors. Moreover, since EPU and GDP are yearly, I use them for my time subscript in the model.⁷ Finally, I control for firm size with ROA and logged number of employees.

⁷ I originally used year dummies to account for non-linear trends in financialization but the overall trend is generally linear and therefore, I find it unproblematic to use one time variable for 14 years of observations.

Results

Figure 1 depicts the average levels of financial assets and payouts within this sample.⁸ In both instances, financialization did not increase dramatically for retail, apparel, and footwear. This is especially true in the level of financial assets which only increased 12% over the sampling years, 1991 to 2005. The overall level of average payouts also did not rise or fall significantly. However, there were notable fluctuations in the trend. Financial payouts gradually increased from the mid-1990s and then slowed around the time of the Dotcom bubble. Then from 2002 until 2005, payouts increased 97%. This increase in financial payouts during the 2000s is consistent with the work of Milberg (2008) and Baud and Durand (2012). However, Figure 1 reveals no master trend or a dramatic surge in financialization. Indeed, financialization within these industries is prone to shifts over time yet generally remains stable.

⁸ The average measures of financial assets and financial payouts have different denominators to correspond to how they are measured within the literature but also for easy comparability. Financial assets are a percentage of total assets (see Baud and Durand 2012) while financial payouts are a percentage of plant, property, and equipment (see Orhangazi 2008).

Figure 1: Average Level of Financial Assets and Payouts.⁹

I break these financialization measures down by organizational type in Figures 2 and 3. Both reveal noticeable variation between organizational and supply chain type. Whether we look at financial assets or payouts, branded manufacturers and marketers are much more financialized than retailers and textile producers. For all organizational types, the level of assets is stable over the sampling period while payout levels vacillate much more, albeit just with manufacturers and marketers. For instance, branded marketers decreased their level of financial payouts by 32% between 1994 and 2005 while manufacturers increased payout levels by 200% during the same time.

⁹ Financial payouts are a percentage of plant, property, and equipment while financial assets are a percentage of total assets.

Figure 2: Financial Assets as Percentage of Total Assets by Supply Chain Type.

Figure 3: Financial Payouts as a Percentage of Plant, Property, and Equipment by Supply Chain Type

The regression results are depicted in Tables 3 and 4. Table 3 estimates financial assets while Table 4 shows the results predicting financial payouts. In both tables, I

alternate using GDP and EPU while introducing new variables in three waves—a set of political economy variables, supply chain type, and the neo-institutional variables—for a total of 12 models.

Profitability matters when predicting financialization but not as much as anticipated. As firms decrease their level of ROA by 1 percent, they will increase their level of dividends, debt, and buybacks by .01 percent lending some support to H1 but the effect size is quite small.

When regressing financial assets, GDP is highly significant yet its effect size is very small. As GDP grows by one billion dollars, financial assets increases by .01 percent. Contrary to my hypothesis on market uncertainty, this finding suggests that financialization will increase slightly if there is greater market *certainty*. EPU is highly significant in two models when predicting payouts. If EPU decreases by one unit¹⁰, firms will increase their level of financial payouts by .5 percent—though this effect disappears when controlling for the neo-institutional variables. This again indicates that financialization is associated with greater market confidence.

The union dummy was not significant when estimating financial assets though unionization matters when regressing financial payouts. However, the direction is counter to H3 as unionized firms are *more* likely to financialize than their non-union counterparts. Without controlling for supply chain type and neo-institutional variables, this effect was highly significant though its significance and effect size dropped as variables were added.

¹⁰ EPU in this sample ranges from a value of 60.67 (1999) to 140.33 (1992).

In the full model, unionized firms are 33% more financialized (i.e., financial payouts) than non-unionized firms at the .10 level.

VARIABLES	(1A) Log Financial Assets	(2A) Log Financial Assets	(3A) Log Financial Assets	(4A) Log Financial Assets	(5A) Log Financial Assets	(6A) Log Financial Assets
Log Employees	.777*** (.0523)	.8472*** (.0596)	.8186*** (.0543)	.8874*** (.0610)	.8131*** (.0556)	.8583*** (.0602)
Political Economy GDP (Lagged)	.0001*** (.0001)		.0001*** (.0001)		.0001*** (.0001)	
EPU (Lagged)		.0005 (.0005)		.00067 (.0005)		-.0002 (.0005)
2 Year Change in ROA	.0001 (.0001)	.0001 (.0001)	.0001 (.0001)	.0001 (.0001)	.0001 (.0001)	.0001 (.0001)
Union	.1661 (.1471)	.1647 (.1491)	-.0144 (.1283)	-.0355 (.127)	-.0402 (.1279)	-.0459 (.1267)
Branded Manufacturer			.7879*** (.1955)	.9331*** (.2031)	.8498** (.2992)	.8982*** (.3176)
Branded Marketer			1.853*** (.2378)	2.054*** (.2413)	1.935*** (.3313)	2.007*** (.3483)
Specialty Retailer			-.0099 (.1857)	.0957 (.1848)	.0877 (.2884)	.1137 (.3050)
Textile			.5640* (.2419)	.6912*** (.2463)	.5691 (.3718)	.6116 (.3935)
Neo-Institutionalism						
Total Payout Levels (Lagged)					.0001* (.0001)	.0001*** (.0001)
Within Industry Payout Levels (Lagged)					.0001 (.0001)	.0001 (.0001)
Pricewaterhouse					.2392 (.1774)	.2430 (.1715)
Ernst & Young					.4269* (.1800)	.4059** (.1749)
Coopers & Lybrand					.3742† (.2201)	.2325 (.2121)
KPMG					.2716 (.1890)	.2791 (.1813)
Arthur Anderson					.2388† (.1379)	.1570 (.1324)
Other Auditing Firms					.0643 (.1369)	.0738 (.1324)
Constant	2.394*** (.2412)	3.124*** (.1795)	2.044*** (.2948)	2.603*** (.2504)	1.254*** (.3840)	1.441*** (.3731)
Inter-Class Correlation	.842	.833	.773	.757	.781	.770
Observations	1,551	1,551	1,540	1,540	1,540	1,540
Number of Firms	171	171	170	170	170	170
R ²	.551	.545	.708	.708	.690	.694

Table 2: Effect of Political Economy and Neo-Institutionalist Variables on Financial Assets

*** p<.001, ** p<.01, * p<.05, †<.10. Lagged variables are lagged by 1 year. Ref=General Retailers and Deloitte & Touche

VARIABLES	(1B) Log Financial Payouts	(2B) Log Financial Payouts	(3B) Log Financial Payouts	(4B) Log Financial Payouts	(5B) Log Financial Payouts	(6B) Log Financial Payouts
Log Employees	1.001*** (.0638)	1.019*** (.0697)	1.081*** (.0670)	1.095*** (.0730)	1.063*** (.0676)	1.055*** (.0666)
Political Economy						
GDP (Lagged)	.0001* (.0001)		.0001† (.0001)		-.0001 (.0001)	
EPU (Lagged)		-.0051*** (.0010)		-.0050*** (.00010)		-.0009 (.00161)
2 Year Change in ROA	-.0001† (.0001)	-.0001† (.0001)	-.0001† (.0001)	-.0001† (.0001)	-.0001* (.0001)	-.0001* (.0001)
Union	.5415*** (.1603)	.5326** (.1592)	.2926† (.1512)	.2851† (.1511)	.2797† (.1496)	0.282† (.149)
Branded Manufacturer			.7632*** (.1778)	.7772*** (.1864)	.7962** (.2643)	.7919** (.2633)
Branded Marketer			1.079*** (.2862)	1.108*** (.2910)	1.151** (.4020)	1.152** (.4020)
Specialty Retailer			-.5325*** (.2037)	-.5071* (.2039)	-.4686 (.2946)	-.4673 (.2950)
Textile			.8264*** (.2273)	.8339*** (.2358)	.8314* (.3582)	.8338* (.3579)
Neo-Institutionalism						
Total Payout Levels (Lagged)					.0001*** (.0001)	.0001* (.0001)
Within Industry Payout Levels (Lagged)					.0001 (.0001)	.0001 (.0001)
Pricewaterhouse					.1575 (.2213)	.1587 (.2211)
Ernst & Young					.2685 (.2085)	.2711 (.2084)
Coopers & Lybrand					.2054 (.2397)	.2519 (.2366)
KPMG					.1837 (.2460)	.1802 (.2366)
Arthur Anderson					.2501 (.2098)	.2933 (.2118)
Other Auditing Firms					-.2571 (.5322)	-.3052 (.5172)
Constant	.0858 (.4091)	1.307*** (.2331)	-.0481 (.4273)	1.043*** (.2897)	-.0587 (.4701)	-.2206 (.4910)
Inter-Class Correlation	.567	.568	.476	.481	.481	.473
Observations	1,512	1,512	1,501	1,501	1,501	1,501
Number of Firms	171	171	170	170	170	170
R ²	.543	.548	.624	.628	.629	.628

Table 3: Effect of Political Economy and Neo-Institutionalist Variables on Financial Payouts

*** p<.001, ** p<.01, * p<.05, †<.10. Lagged variables are lagged by 1 year. Ref=General Retailers and Deloitte & Touche

There is strong support that supply chain type matter when predicting levels of financialization. Compared with general retailers, branded marketers are considerably more financialized. Branded marketers have almost 750 percent the level of financial assets and 300 percent the level of payouts than compared with general retailers. Branded manufacturers are also predicted to have significantly higher levels of financial assets and payouts than compared with general retailers, though not to the extent that marketers are. These results are in accord to Figures 2 and 3 which depict manufacturers and marketers as the most financialized supply chain type. In these figures however, textiles hovers around the two retailer categories yet the regression results predict that textiles have 230 percent the level of payouts compared with retailers controlling for all other variables.

My results indicate some support for neo-institutionalism. The mimetic variable that captures the total level of financial assets or payouts is significant but its effect is quite small. For example, if the total level of assets or payouts increases by one million dollars, firms will increase their level of assets or payouts by .01 percent. Thus, there seems to be some trend following but its effect is minuscule. There is a larger effect for my other isomorphic effect—auditing firms, yet this is only significant when predicting financial assets. For instance, Ernst & Young clients are 153 percent more financialized than compared with Deloitte & Touche. Similarly, Arthur Anderson’s clients are also more financialized.

Taken together, these results indicate several things. First, branded manufacturers and especially branded marketers are prime candidates for financializing. Second, market uncertainty is conducive for financialization, but contrary to my hypothesis and previous

work (Akkemik and Özen 2014), it seems that financialization is associated with market confidence. Neo-institutional variables also matter; however, the effect of trend following mimeticism is small and the influence of certain auditor-client relationships only pertains to financial assets. Unionization has some support and a notable effect when predicting payouts and so too does profitability though its effect is quite small. Finally, these results reveal that firm level characteristics are influencing the financialization process. I have reported an inter-class correlation on both tables which captures the level of between firm variation in the estimated models. When predicting financial assets, as much as 78 percent of the variation is between firms in the full model and about 48 percent when predicting financial payouts. This reinforces my finding that firm-specific factors like a firm's supply chain type, their auditor, whether or not they are unionized, and to some extent, their performance, can change the likelihood of financializing in significant ways.

Discussion

This study seeks to unravel why firms financialize by examining 170 American footwear, retail, and apparel firms from 1991 to 2005. To this end, I tested two separate yet relevant theoretical paradigms—political economy and neo-institutionalism. Together, these theories and my results provide new insight into the financialization process. This includes the lack of a master financialization trend within this sample and notable variability between firms. This provides strong evidence that financialization is a more localized and contingent process than described in earlier work. The specific meso-level processes I have shown to shape financialization include supply chain organization, isomorphic pressure, market uncertainty, and to some extent, unionization and profitability. That broad economic dynamics are being worked out at the meso or even micro-level is not new within political economy (e.g., Hall and Thelen 2009) or neo-institutional theory (e.g. Davis and McAdam 2000). However, this attention to analytical levels has not been fully applied to financialization and needs to be.

My results indicate significant differences in financialization between branded marketers, manufacturers, and retailers and similarity between manufactures and marketers. These findings are surprising for two reasons. The first is that branded marketers are more dissimilar than manufacturers since marketers do not own any

production facilities. Secondly, marketers are similar to retailers in that both tend to have high market power and rely on full package production extensively (Bair and Gereffi 2003; Heintz 2006). What then, is driving these divergent outcomes among different supply chain types? Crotty (2005) contends that firms financialize when they have become over-capacitated, unprofitable, or lose market power, while Baud and Durand (2012) conversely find that the most profitable and powerful retailers are the least financialized because of their structural position and organization. That is, retailer's ability to shape buyer demands, enter new markets, have discretion over labor organization, and up and downstream supplier capabilities affords them more room to grow, market power, and if organizational successful, wide profit margins (Bonacich and Hamilton 2011; Petrovic and Hamilton 2011).

What would compel branded manufacturers and marketers to be more financialized? Supply chain organization hinges upon specific factors like barriers to entry, supplier capabilities, and others (Bair and Mahutga 2012; Baud and Durand 2012; Muhutga 2012). Branded marketers and retailers have high barriers to entry and sophisticated full package production arrangements, while manufactures have low barriers to entry and assembly production. This provides higher rates of return and stiffer competition for branded marketers and lower returns for branded manufactures (Schrank 2004). Branded marketers could be financializing because of higher competition and specialization, while manufactures may be financializing to compensate for lower returns. Or perhaps, if the organizational structure of marketers is strongly associated with financialization, it may be that manufactures are financializing because of their increasing

reliance on full-package production, making them more similar to marketers (Bair and Gereffi 2003). Indeed, as we have seen, manufactures have increased their payout activity dramatically in the mid-1990s which may coincide to a change in supply chain organization.

Furthermore, it is worth speculating on two unexpected findings. The first was the direction of the union dummy when predicting financial payouts. Counter to my hypothesis, unionized firms were more likely to engage in payout activity. One possible explanation for this is unionized firms are more constrained and must resort to greater financialization to compensate (cf., Lin and Tomaskovic Devey 2013). The second unanticipated finding was the small effect size of profitability rates when regressing financial payouts. While firms may be constrained in ways this model does not address, this effect is illuminating for two reasons. First, like other variables, it indicates firm specific characteristics shaping the likelihood of financializing. The second relates to the literature on profitability rates and financialization. Numerous scholars working from the political economy tradition have emphasized how waning profitability rates will pressure actors to seek gains within financial channels.(e.g., Stockhammer 2004). This work is based at the national level as there is a very clear trend of declining profitability rates in the 1970s and the 1980s and the rise of financial income and gains in its place. The central importance of profitability within the financialization literature and its weak effect in my model, begs speculation as to why this is the case. First, it may be that whatever influence declining profits have in the financialization process came before 1991 when there was greater economic restructuring. That is, some of the explanations for

financialization may have already been set in motion before the time frame of this study (c.f., Baud and Durand 2012). It may also suggest that macro level trends in profitability yield different outcomes or are affected by different processes than meso-level profitability patterns. This could be a further sign that broad trends may not be congruent with organizational dynamics.

This study has several shortcomings that need to be mentioned. The first is that firms within this industry are only a fragment of the U.S. non-financial economy. Therefore it is difficult to cast broad generalizations about financialization especially in light of that fact that industries vary widely in their financialization levels (Fligstein and Shin 2007; Lin and Tomaskovic Devey 2013).

There are several issues to note regarding the neo-institutional variables. When controlling for other variables, some auditors significantly influence the level of financial assets on a firm's balance sheet. How exactly this isomorphic process works is unknown and out of reach for this project. Greenwood and Suddaby's research (2006) contends that it is managers seeking and sometimes demanding consultation from auditors. This suggests that managers are interested in how to financialize their firm but again, we cannot be so certain. What can be said is that certain auditor-client relationships are facilitating an increase in financial assets (though not payouts), which suggests some transmission of knowledge among relevant actors. A second concern is my mimetic variables, which are meant to capture managers looking "out there" and following trends within the field. It should be underscored that these measures are proxies for such a process and should therefore be interpreted with caution.

With several exceptions, the few independent variables in this study yielded consistent results across my two dependent variables suggesting high validity. This is encouraging given their use by other scholars (Baud and Durand 2012; Dumenil and Levy; Orhangazi 2008) but it should be noted that they may capture different facets of the financialization process and scholars should be aware of this. After all, variables like unionization, EPU, and auditors were significant with one dependent variable but not the other. With my two measures, a firm could financialize by increasing their cash holdings. However, in doing so, they increase their chances of a takeover bid. To mitigate this threat, that same firm can lever up, which would also increase their level of financialization. In both cases, they are becoming more financialized but in different ways and for different reasons. Understanding and appreciating this nuance is important and should be given greater attention in the future.

Shortcomings notwithstanding, my study sheds much needed light on meso-level characteristics of financialization while raising new questions for future research. Specifically, if there is no master financialization trend within this industry, then where have the highest financial gains been realized and what accounts for that? Not only is this question of empirical importance, it also penetrates that long-standing interest of parsing out the link between the financial and “real” economy. Such a link is undoubtedly complex and porous (Henwood 1997; Lapavistas 2013: 138-68) but any attempt to map out where the major financial gains are accruing and how this works is of considerable importance.

Finally, future work should take meso-level dynamics very seriously. While my work differs in notable ways from the work of Akkemik and Özen (2014), Baud and Durand (2012), Gunnoe and Gellert (2011), and Orhangazi (2008), research examining firms or closely analyzing similar industries is crucial for parsing out financializations more nuanced character. From this more detailed vantage point, scholars can examine a variety of topics like work and labor processes, the regulation of finance, corporate control, financialization vis-à-vis Varieties of Capitalism and other topics that will advance the literature.

Conclusion

This paper argues that the contours of financialization are shaped at the meso-level through specific contingencies and characteristics while directing our attention to the multifaceted dynamics of financialization. Honing in on meso-level phenomena is a promising avenue for future research. Just as the sociology of globalization went from examining the ultra-macro level (e.g., Wallerstein 1979) to unraveling its more localized features (e.g., Carruthers and Halliday 2006). To sharpen its analytical focus, the financialization literature should follow a similar trajectory (Engelen 2008).

To zero in on the financialization process requires a sound theoretical program to work from. In this paper, I combined the two dominant theoretical currents within financialization—political economy and neo-institutionalism. Results indicate that neo-institutionalism and especially political economy have explanatory clout in understanding why firms financialize. However, these theories have important differences due to their distinct intellectual foundations and conceptions of market embeddedness (Krippner and Alvarez 2007).

Given my empirical and theoretical findings, how are we to reconcile these distinct theories? Streeck's (2009; 2011) recent work on the institutional foundations of capitalism provides the best way forward. Streeck establishes a simple yet powerful

model for understanding the institutional foundations of capitalism—a Durkheimian and Williamsonian dialectic. Accordingly, Streeck’s Durkheimian influence captures the non-economic aspects of capitalism that neo-institutionalism has argued are important such as norms, social roles, and trust. Conversely, institutions for Oliver Williamson are highly rational and “designed by interested parties to increase the returns on their mutual transactions” (Streeck 2011: 153). Together, Streeck provides us with an institutional theory of capitalism that sees social relations and non-economic forces as a prerequisite yet readily acknowledges the prevalence of rational institutional rule following for generating returns and remaining competitive. This last point is key as economic sociology has largely strayed from this area to underscore the constructivist elements of market relations while leveling anti-rational critiques of socio-economic analysis. However, a more integrated theoretical program should not suffer at the hands of one-sided analysis and should seek to bridge important gaps. Streeck has the proper toolkit to work from and I have provided empirical support for working towards such ends within financialization. Scholars should integrate both non-economic forces and a realist political economy for a more complete understanding of financialization. Both camps stand to benefit as neo-institutionalism provides political economy with an emphasis on norms, social pressure, and the diffusion of information, while political economy informs us to how market forces like profitability and competition shape economic organization—forces neo-institutionalism has long neglected. Together, these ideas can sharpen our understanding of one the most important socio-economic processes of our time, financialization, and the

institutional foundations of capitalism in the late Twentieth and early Twenty-First centuries.

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Appendix A: Univariate Descriptive Statistics

Variable	Mean	SD	Min	Max
DV: Logged Financial Assets	5.05	1.57	-4.60	10.97
DV: Logged Financial Payouts	3.26	1.99	-6.018	9.029
GDP (t-1)	10502.77	1523.48	8137.37	1295.13
EPU (t-1)	94.8	25.46	60.67	140.33
2 Year Change in ROA	-54.9	1021.84	-21639.22	7081.97
Union	.335	.472	0	1
Branded	.247	.431	0	1
Manufacture				
Branded Marketer	.080	.271	0	1
Special Retailer	.348	.476	0	1
Textile	.064	.245	0	1
General Retailer	.599	.490	0	1
Total Asset Level	89764.55	7674.47	80176.55	107511.4
Within Industry Assets	19233.1	22190.98	0	85973.62
Total Payout Level	20645.57	4280.23	0	30382.99
Within Industry Payouts	4524.70	4758.48	15218.45	18298.74
Pricewaterhouse	.132	.338	0	1
Ernst & Young	.216	.412	0	1
Coopers & Lybrand	.0715	.258	0	1
KPMG	.154	.361	0	1
Arthur Anderson	.123	.329	0	1
Deloitte & Touche	.258	.437	0	1
Other	.018	.135	0	1

Appendix B: Correlation of Variables

	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.
1. Log Assets	1										
2. Log Payouts	.74	1									
3. Log Employees	.74	.72	1								
4. GDP	.14	.08	.10	1							
5. EPU	-.01	-.06	-.05	-.10	1						
6. ROA Rate	.01	-.03	-.02	-.04	-.02	1					
7. Union	.04	.08	-.04	-.05	.01	.04	1				
8. Br. Man	.07	.03	-.17	-.01	-.04	.08	.27	1			
9. Br. Marketer	.12	-.03	-.23	.03	-.01	.03	.03	-.17	1		
10. General Ret	-.03	.01	.37	.03	-.01	-.03	-.27	-.68	.38	1	
11. Special Ret	-.24	-.27	-.04	.07	.06	.05	-.14	-.42	-.24	.61	1
12. Textile	-.09	-.03	-.11	-.06	-.01	.02	.02	-.15	-.08	-.33	-.20
13. Industry Assets	.02	-.05	.09	.19	.59	-.02	-.01	.04	.01	.01	.01
14. Industry Payouts	.10	.09	.07	.72	-.56	-.02	-.03	-.01	.02	.02	.04
15. Within Ind Assets	.23	.29	.49	-.02	.05	-.04	-.15	-.30	-.21	.52	-.33
16. Within Ind Payouts	.24	.30	.50	.16	-.14	-.05	-.16	-.24	-.27	.53	-.26
17. Pricewaterhouse	.10	.09	.08	.11	.01	-.02	-.01	.11	.06	-.07	-.08
18. D&T	-.15	-.07	.01	.09	.01	-.01	-.12	-.08	-.01	.15	.14
19. E&Y	.01	.04	-.04	.01	.01	.04	.05	.06	.27	-.15	-.08
20. C&L	-.04	-.01	.01	-.21	-.01	.01	-.02	.01	-.06	.04	-.03
21. KPMG	.01	-.03	-.01	.04	-.06	.04	-.01	-.01	-.02	.04	.03
22. AA	.06	.08	.01	-.17	-.02	-.02	.09	-.02	-.06	.02	.07
23. Other Auditor	-.01	-.08	-.10	.01	.03	.01	.13	-.06	.23	-.11	-.17

	12.	13.	14.	15.	16.	17.	18.	19.	20.	21.	22.	23.
12. Textile	1											
13. Industry Assets	-.01	1										
14. Industry Payouts	-.05	-.32	1									
15. Within Ind Assets	-.26	.05	-.05	1								
16. Within Ind Payouts	-.24	-.09	.24	.90	1							
17. Pricewaterhouse	-.11	-.02	.08	-.06	.04	1						
18. D&T	-.15	.04	.07	.05	.06	-.26	1					
19. E&Y	.14	.02	-.03	-.10	-.09	-.21	-.34	1				
20. C&L	-.03	-.04	-.15	.09	.04	-.08	-.13	-.11	1			
21. KPMG	.05	.01	.03	.12	.03	-.17	-.26	-.23	-.08	1		
22. AA	.08	-.08	-.10	.08	-.05	.16	-.27	-.22	-.08	-.17	1	
23. Other Auditor	.04	.03	-.02	-.07	-.08	-.03	-.05	-.04	-.01	-.03	.03	1